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Capital
Market
Association

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Response submission from the ICMA Consolidated Tape Working Group
Re: ESMA Consultation Paper on RTS specifying the scope of the consolidated tape for non-equity financial instruments

Introduction

On behalf of the International Capital Market Association's ("ICMA")[1] Consolidated Tape working group ("ICMA CTP WG"), the purpose of this response is to provide feedback on ESMA's consultation paper (CP) on RTS specifying the scope of the consolidated tape for non-equity financial instruments.

The ICMA CTP WG is pleased to respond to ESMA's consultation paper. ICMA's CTP WG understands that ESMA will use the input from stakeholders to help in finalising the draft RTS. ICMA CTP WG also agrees with ESMA that non-equities (for this CP response, ICMA will use cash bonds as a proxy for "non-equities") are more complicated than equities.

ICMA's CTP WG welcomes ESMA's efforts to specify the draft RTS outlining the scope and financial instrument data required for MiFID II and ESMA's non-equities consolidated tape. ICMA CTP WG's response is based on the consensus view from an ad hoc ICMA buy-side working group on consolidated tape. The 14 members of the working group are heads of global or European buy-side trading desks representing investment managers from the UK, Germany, France, Belgium, Switzerland, Norway, Denmark, and the US.

[1] ICMA is a membership association, representing both the buy side and sell side of the industry. Its membership includes issuers, intermediaries, investors and capital market infrastructure providers. ICMA currently has over 500 members located in approximately 60 countries worldwide.

Working actively with its members in all segments of the wholesale market, ICMA focuses on a comprehensive range of regulatory, market and other relevant issues, which impact market practices and the functioning of the international debt capital markets.

The mission of ICMA is to promote resilient and well-functioning international debt capital markets, which are necessary for economic growth.

The ICMA CTP WG also agrees with ESMA's statement that "having an all-encompassing consolidated tape in the non-equities space would have the advantage of offering a one-stop shop for users". However, ICMA CTP WG disagrees with ESMA that more than one consolidated tape will be a "real value to users of data". The ICMA CTP WG suggests that the data should be consolidated into a single source of raw data to address the needs of European bond markets in the most efficient manner. ICMA CTP WG's preference is for ESMA to create one single clean consolidated tape, owned and governed by ESMA (this is further explained in question 2 of the consultation paper, through ICMA CTP WG's alternative approach). The data would be in raw form including basic information such as: date, time of execution, reported date & time (taking into account deferrals), direction (buy or sell), price, cancel or correction, and venue. The purpose of a consolidated tape is to collect, clean, reconcile and consolidate raw bond trade data.

ESMA's proposal for multiple consolidated tapes greatly concerns market participants, particularly the asset management community. The worry is that multiple tapes will increase the cost of assembling a 'single source' tape. Multiple tapes will introduce trade data errors, duplications and differences. All of this will result in the lack of a single authoritative tape and instead provide a set of platform dependent solutions.

Furthermore, the asset management community are extremely worried about the high probability of paying for their own raw data, under ESMA's current proposals. However, they are not averse to paying for market data and would welcome paying for 'enriched' data. For example, enriched data may include advanced analytics such as benchmark spread calculations (complicated to calculate e.g. asset swap spreads, Z-Spreads), data presentation and visualization tailored to trader workflow, watch lists and dynamic charting capabilities etc.

ICMA CTP WG considers a single source of raw post trade data to be a great benefit to the market. Bond market participants can benefit from clean raw data and the enrichments provided by third parties through reliable data mining, more robust transaction cost analysis and more objective inputs to evaluate best execution. With this view in mind, ICMA's CTP WG is pleased to answer the following ESMA consultation questions regarding; specialisation of consolidated tape(s), trading venues and APAs in scope for consolidated tape (s) and adding new sources or removing known sources of data to the consolidated tape (s).

ESMA Consultation Paper Questions:

Q1: Do you agree with ESMA's proposal to allow non-equity CTPs to specialize their offering? Do you agree to the level of specialisation proposed or would you recommend a less granular or more granular approach?

ICMA's CTP WG agrees with ESMA that a consolidated tape should specialise according to asset class and in particular, sub-asset class. There should be a consolidated tape for bonds traded in Europe. However, the ICMA CTP WG believes the reported fields should be based on MiFID II bond sub-asset classes: sovereign, corporate, covered, convertible and other public bonds. However, as previously mentioned, ICMA's CTP WG also believes the European consolidated tape should be a consolidation of the individual MiFID II bond sub-asset classes, so we would prefer a 'single source' consolidation of corporate bonds, sovereign bonds, covered bonds etc. There should not be more than one consolidated tape per MiFID II bond sub-asset class. The management of these bond sub-asset class consolidated tapes may be outsourced to a firm external to ESMA, but we believe this would be sub-optimal. The ICMA CTP WG considers the only workable solution to be one single source consolidated tape per sub-asset class, owned and governed by ESMA and distributed through partnerships with third-party commercial ventures.

Q2: Do you agree that the threshold determining whether a trading venue or APA needs to be included in the CT should be based both on the volume and the number of transactions? If not, please explain and present an alternative approach.

ICMA's Consolidated Tape Working Group wholeheartedly believes that the benefits of introducing a European tape are the very reasons why there should be only one consolidated tape. All market participants seek to increase price and trade transparency, which helps liquidity. Having this valuable data spread over various platforms can only serve to decrease the benefits.

One obvious benefit of a single clean consolidated tape is that every market participant has the confidence in one source for trade data and therefore only needs access to one streamlined system and one cost/subscription. More importantly, having multiple reporting venues will hamper pre-trade price discovery and decrease confidence that the price you see is the 'true' picture. To have faith in a multiple venue system, investors would be forced to have multiple systems (with multiplied costs) and then potentially pay for an amalgamator.

So, the benefits of a consolidated tape are clear, both in helping to protect the smaller investor who may not have (or be able to have) access to several systems or the ability to pay for an aggregator and would be disadvantaged by the existence of multiple tapes; but also, the large pension fund portfolio manager or trader doing pre-trade discovery before advising on or executing a trade.

An example of the latter could be an execution trader looking for liquidity in a certain instrument, checking for that instrument on tape provider **A** and seeing a series of trades across various prices. If this dealer does not have access to tape provider **B**, he or she misses data showing that after those prints reported by tape provider **A**, a series of trades took place at higher prices printed on tape provider **B**. The information that is then passed to the portfolio manager, or the trading level that the dealer thinks is appropriate for that security, will be incorrect/incomplete and ultimately cost the fund money.

There are also other parts of investment firms that will seek to use this data such as, fund valuation teams, compliance teams and anyone carrying out trade cost analysis etc. Any splitting of the data will make the data less meaningful to them.

It is ICMA CTP WG's opinion that a clean single source consolidated tape is the logical solution considering the original ESMA aims and objectives. ESMA now has the opportunity to establish this 'Golden Source' of consolidated raw[2] trade data from the outset.

Furthermore, the ICMA CTP WG disagrees with ESMA's view that consolidated tapes should not be required to collect information from all trading venues and APAs. ICMA's CTP WG also disagrees with the statement that the added value for users of adding sources with only minor activity is limited. ICMA's CTP WG believes that a consolidated tape is a sourcing tool for the market. Sophisticated technology can historically source and analyse this data for bonds and sectors. For example, low volume anonymous trading will not be able to 'hide' trades (causing fragmentation and lack of liquidity). It is evident that trade data from all trading venues and APAs, however obscure, in one place allows for more accurate sourcing, price discovery and formation.

The data is valuable no matter what the volume or number of transactions. For example, a large asset manager for months has been trying to buy a bond but with no luck. Through technology, the

[2] Raw data: date, time of execution, reported date & time (taking into account deferrals), direction (buy or sell), price, cancel or correction, and venue.

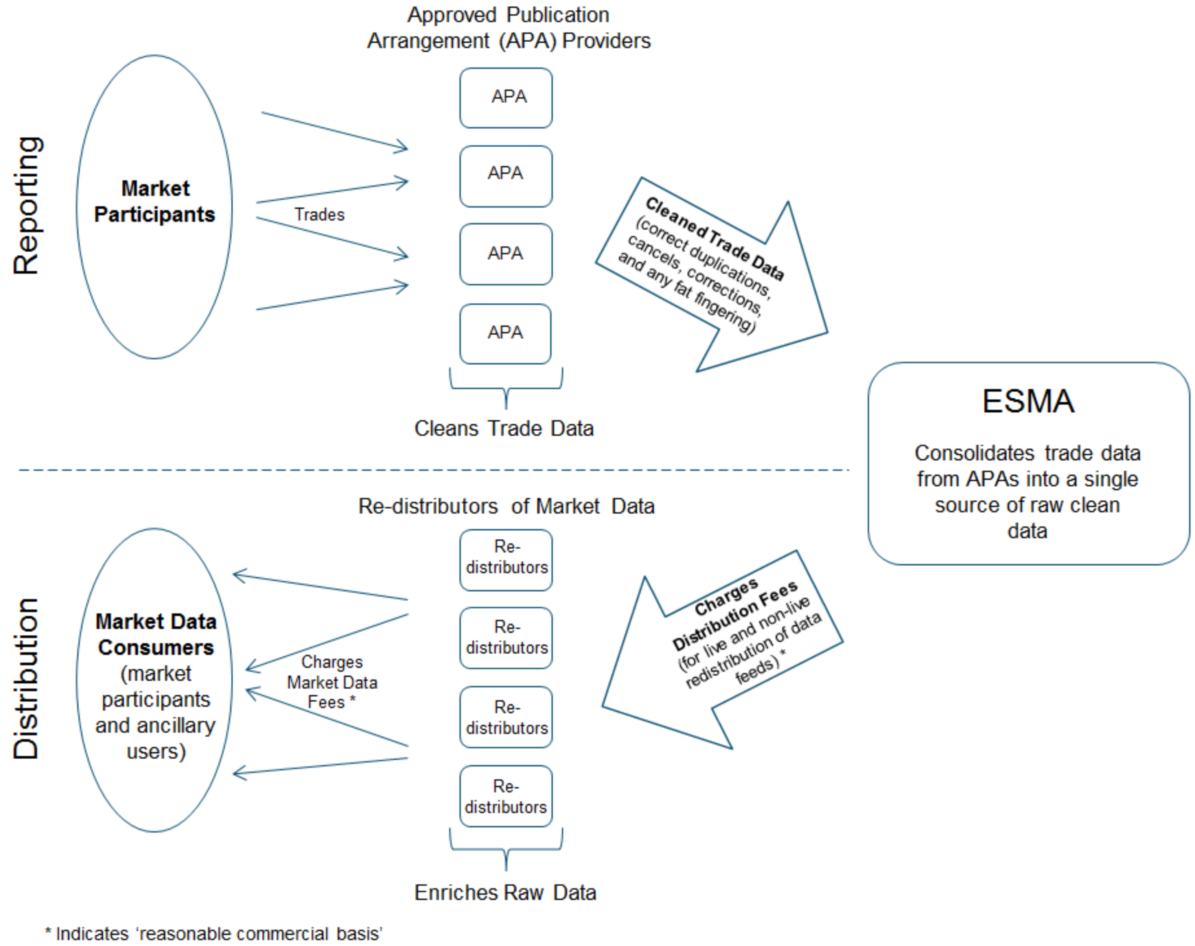
trader can analyse the single consolidated tape or through the enriched data[3] tools (available using the single consolidated tape as the foundation database) and now he can identify a counterparty that he had previously never traded with. Allowing interaction between regionally diverse market participants who may have never previously heard of each other, much less traded. With a proper single source clean consolidated tape, using all reportable trade data, retail size flow can interact with institutional flow, benefitting both.

The value of a single consolidated trade tape rests on its ability to provide an accurate market value (or clearing price [where a bond was traded or exchanged, not quoted]) for the instruments it covers. Collecting the data inputs needed to build such a tape must ultimately be balanced with the regulatory burden and costs to those providing the data. We acknowledge that in liquid markets, such as equities for example, capturing every single trade may not be needed to arrive at a stock's market price at a point in time.

However, in more fragmented and less liquid markets, such as cash bonds, it is often the case that there are very few trades in a single bond over the course of the day. This means that the informational value of capturing additional trade prices is very high and as such, crucial to constructing an accurate estimate of a bond's market value. As such, we suggest that this makes the exclusion of any venue, even based on a small market share, potentially detrimental to any effort to create an accurate and authoritative consolidated trade tape.

[3] Enriched data - may include: advanced analytics such as benchmark spread calculations (complicated to calculate e.g. asset swap spreads, Z-Spreads), data presentation and visualization tailored to trader workflow, watch lists and dynamic charting capabilities etc.

With this view in mind, the ICMA CTP working group is pleased to present an alternative approach for a European Consolidated Tape:



Q3: Do you agree with the proposed level for the threshold? In particular, do you agree that the threshold is set at the same level across all asset classes and for both the volume and number of transactions? If not, please explain why and propose an alternative approach.

As ICMA CTP WG has previously stated, ICMA CTP WG views 'thresholds' as irrelevant. Therefore, the source (APA or venue) should not carry any percentage threshold (2.5% or otherwise).

ICMA CTP WG's view is there should be an "eligibility criteria" approach for cash bonds reported across Europe. ICMA CTP WG's alternative approach follows:

Any instrument traded by a MiFID II regulated venue or investment firm trading OTC, is required to report. The exception to reporting for MiFID II regulated venues and investment firms trading OTC, is for trades below EUR 10,000.

Q4: Which entity should perform the calculations? Should it be the data source, i.e. trading venues and APAs, or the CTP?

ESMA notes that “determining the denominators of these tests, i.e. the volume and number of trades reported for all trading venues and APAs in the Union may create some challenges. However, ESMA considers this information will be available once the MiFID II regime starts applying as of 3 January 2018. ESMA is assessing whether it could compute and publish the denominators needed for the calculations alongside the transparency calculations.”

ICMA’s CTP WG agrees with ESMA that this (consolidated) information should indeed be brought into and under ESMA’s stewardship. Therefore, the ICMA CTP WG believes ESMA should avoid needless thresholds but instead manage the assembling and consolidating process and provide the industry with the single clean source of raw trade data. This would provide market participants with an accurate single source consolidated tape that facilitates trustworthy and reliable price discovery.

Q5: Do you agree with the proposed calculation and publication frequency? Do you agree that only trading venues and APAs that have reported transactions covering the full reference period of 6 months should be required to carry out the assessment? If not, please explain why and propose an alternative solution.

ICMA’s CTP WG believes thresholds are not applicable for the purpose of the European consolidated tape for non-equities (cash bonds).

Q6: Do you consider it appropriate to provide for a grace period of up to 6 months after the first assessment date for including new sources into the data stream? Do you consider the proposed length appropriate?

The ICMA CTP WG believes the concept of ‘threshold assessment’ to be incorrect. Therefore, the grace period is immaterial.

Q7: Do you agree that a source be only excluded if the thresholds are not met for at least three consecutive periods? If not, what do you consider to be the appropriate length of time?

ESMA states that “RTS 13 requires CTPs for equity instruments to include data from new trading venues or new APAs as soon as possible and in any case, no later than 6 months after the start of the trading venues or the APA’s operations. This approach aims at allowing CTPs sufficient time to put in place the necessary arrangements for integrating the new source in its data stream and secure a robust access to information.”

ICMA’s CTP WG agrees with this approach and it should be the same with cash bonds. However, once the data is provided (after the grace period), it is then retroactively fitted to the launch of the platform. The platform thus has to ‘true-up’ the data after the grace period. Effectively, enabling the creation of a comprehensive historical data set.

Conclusion

The view of ICMA’s Consolidated Tape Working Group regarding ESMA’s current proposal is that there is a high degree of probability of duplicate or incorrect data within a regime of multiple APAs.

The ICMA CTP working group does not consider it wise to increase this chance of error with multiple consolidated tapes. Therefore, ICMA's CTP WG preference is for ESMA to create one single clean consolidated tape, owned and governed by ESMA, covering each MiFID II bond sub-asset class (sovereign, corporate, covered, convertible and other public bonds). Moreover, there should not be more than one consolidated tape per MiFID II bond sub-asset class.

The reason for this view is based on market participant worries. There is great concern, particularly amongst the asset management community of multiple tapes causing an increase in costs. The costs stemming from (under ESMA's current proposals) multiple tapes causing trade data errors, duplications and different data on different tapes. Multiple tapes will increase the cost of assembling a 'single source' tape. All of this would result in a lack of a single authoritative tape, potentially leading to a set of multiple platform dependent solutions.

In addition, the asset management community is also concerned about the likelihood of paying for its own raw data, under ESMA's current proposals. However as mentioned earlier, asset managers are not averse to paying for 'enriched' market data.

It became evident to the ICMA CTP working group that a new approach, different from that of ESMA's, was needed. The benefits of such an approach are clear: protecting (1) the smaller investor and (2) the large pension fund portfolio manager or trader carrying out pre-trade discovery or advising on a trade execution. The ICMA CTP working group is pleased to suggest a possible consolidated tape solution where ESMA would own and govern the process of assembling the clean raw data into one consolidated source to be redistributed to the market, on a reasonable commercial basis and not bundled with other services. While at the same time providing a single consolidated tape, this proposal is self-funding.

Lastly, ICMA's CTP working group understands that the goal of ESMA is to create a pragmatic, feasible approach that is sufficiently attractive to potential consolidated tape users. We hope that ESMA finds our recommendation to create a clean single raw source consolidated tape attractive. We further hope that ESMA will value the idea of this single consolidated database as a 'foundation'; enabling advanced datamining and enrichment of trade data, assisting market participants with liquidity sourcing and analysis - a truly "golden source" of information.